



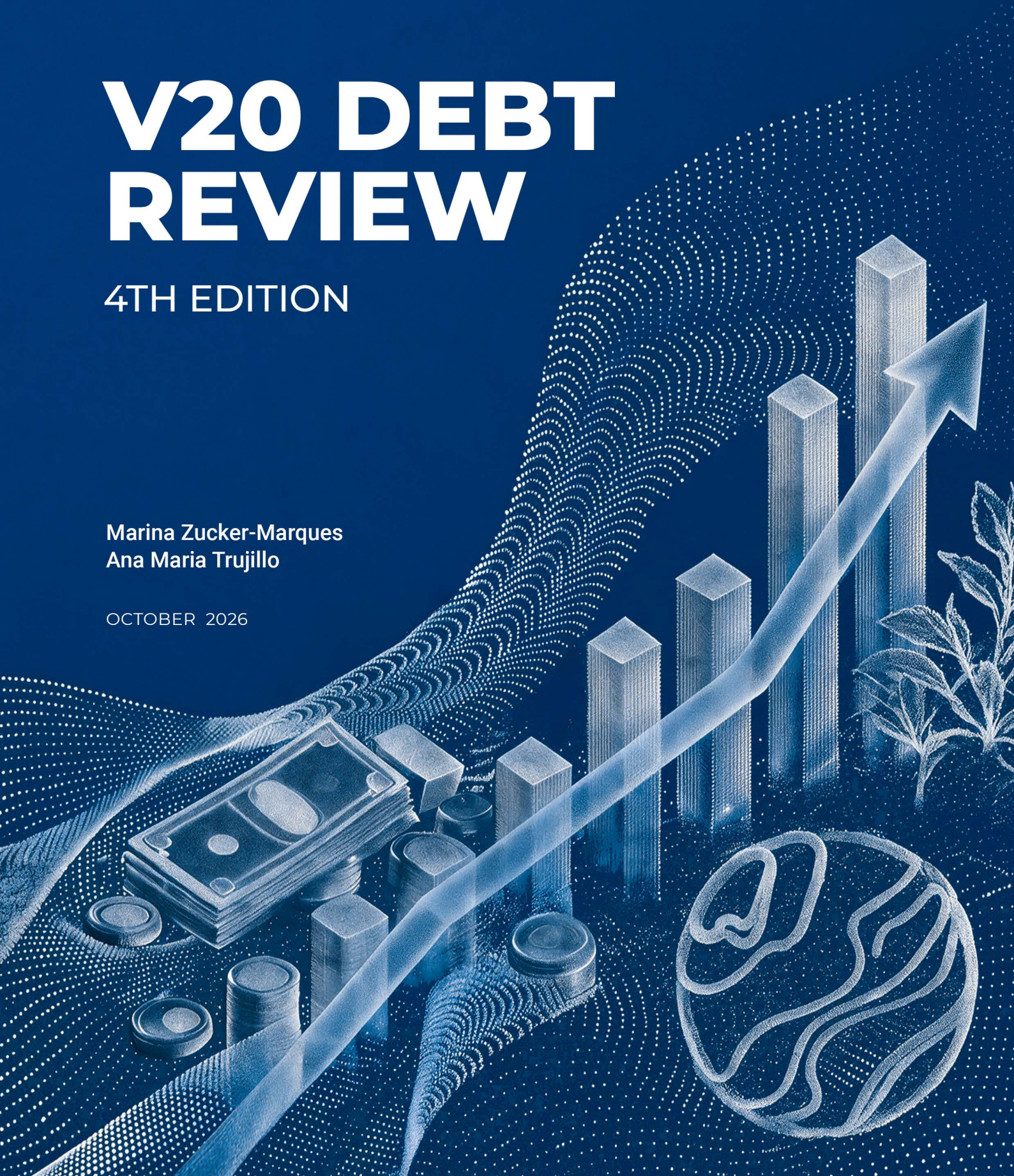
Global Development  
Policy Center

# V20 DEBT REVIEW

4TH EDITION

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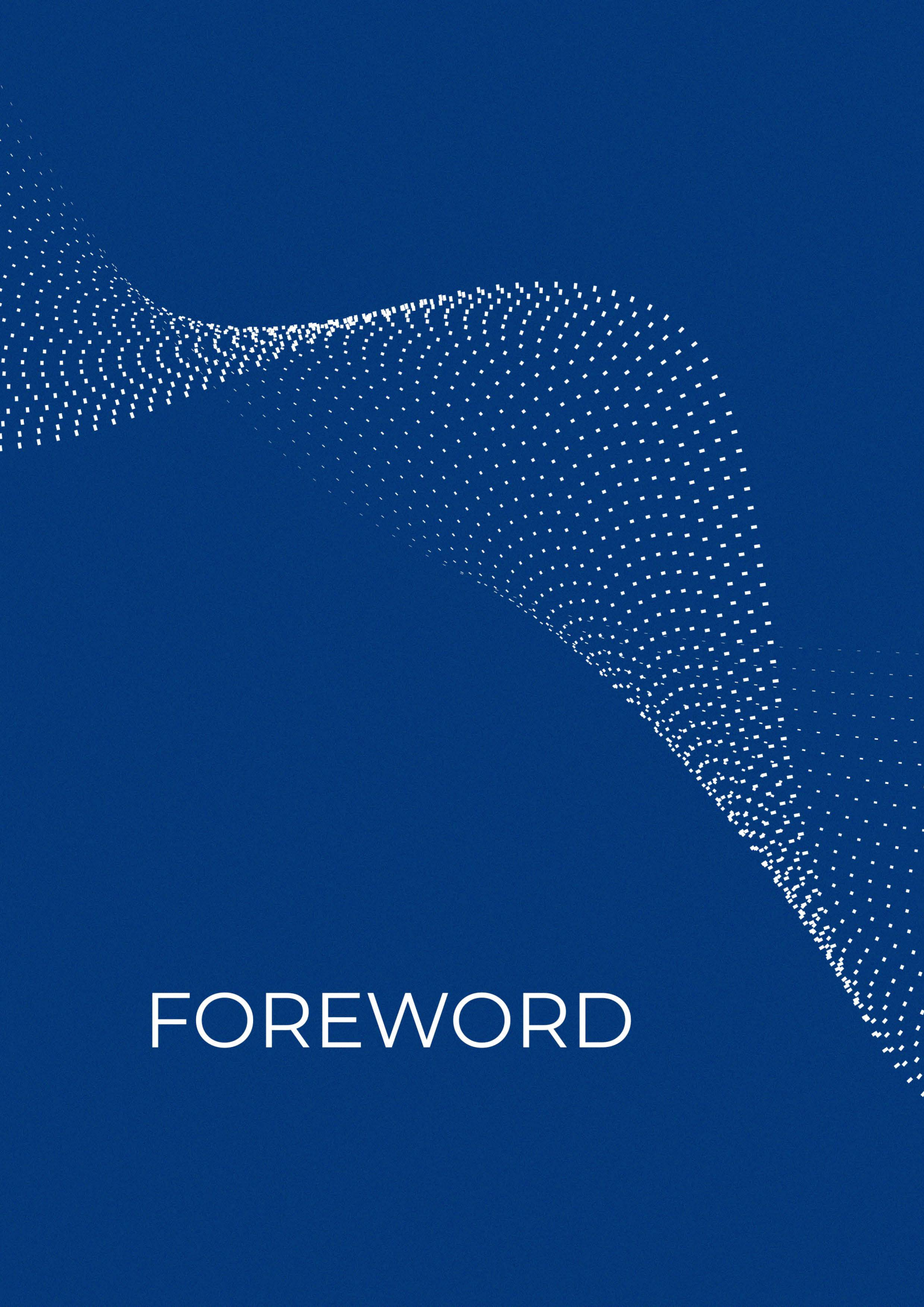




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An abstract graphic consisting of a series of white dots arranged in a wavy, undulating pattern that flows from the top left towards the bottom right. The dots are of varying density, creating a sense of movement and depth against the solid blue background.

# FOREWORD





Crises have become a defining feature of today's reality, and climate-vulnerable economies are on the front line. Across the globe, our populations live this reality every day. Climate disasters, geopolitical tensions and an energy crisis have combined to produce wave after wave of shocks. Compounding shocks leave climate-vulnerable countries without sufficient time or resources to adequately cope. In the near-term, countries can no longer rebound from climate disasters. In the medium and long-term, they are unable to look ahead and invest in education, health, or infrastructure for climate resilience. Instead, the vicious cycle of debt distress and vulnerability intensifies, keeping countries locked in the loop.

While climate disasters continue and intensify, investment in resilience and development becomes more necessary than ever. Yet countries continue to face large barriers as both external and domestic financing constrain development rather than unlock new growth pathways. A harmful trade-off emerges: either governments must intensify their borrowing or stop investing in their people, both of which exacerbate vulnerability and prevent countries from achieving their development and climate goals.

What the fourth edition of the V20 Debt Review makes clear is that we need to change the rules of the game. We will not achieve climate prosperity acting within the constraints of the financial architecture that exist. Finance needs to work for our people and for our planet.

Therefore, the reform of the architecture of sovereign debt will remain at the heart of the agenda of the Climate Vulnerable Forum and its V20 Finance Ministers (CVF-V20). We must advocate for faster debt restructurings and more effective solutions for debt sustainability. We need to resolve debt distress and promote structural reform to mobilize long-term affordable finance at the speed and scale needed to provide a livable and prosperous future not just for the next five years, but for the next 50 years and beyond. We cannot and will not accept that our citizens are not entitled to dignity, nor our countries to prosperity and it is these objectives to which we remain committed.

**HER EXCELLENCY MIA AMOR MOTTLEY, S.C., M.P.**

Prime Minister of Barbados  
Chair of the CVF-V20





A key global macro-financial issue is the inability of climate-vulnerable countries to raise affordable long-term finance. Debt distress, high borrowing costs caused by geopolitical events, and lack of external financing prevent countries from scaling up climate finance. Even as debt stocks are improving, a larger share of V20 countries are still spending 10 percent or more of revenue on external debt service. High debt-servicing costs eat away at budgets, preventing countries from investing in adaptation, resilience and social protection at scale.

To ensure long-term growth, V20 countries need lower borrowing costs, longer maturities and timely debt treatments. While debt swaps have returned to the discussion as useful tools, they only provide partial relief. Debt swaps should not obscure the need for a broader innovative and coordinated debt relief strategy. For example, working together with MDBs, V20 countries could create significant fiscal space if the COVID-19 related debt is diverted to support implementation of the Climate Prosperity Plans. Ultimately, reforming the global financial architecture and sustaining international financial flows remain key, alongside improving domestic financing conditions.

**H.E. RYAN STRAUGHN**

Minister of Finance  
Barbados





CVF-V20 countries are stuck in cycles of vulnerability, with unsustainable debt levels and high financing costs constraining development. Deteriorating external liquidity conditions and heightened sensitivity to shocks have left V20 members facing tighter fiscal space with a limited ability to scale climate and development investment. Member-countries inability to cope with climate related shocks keeps them tethered to debt distress. Building strong, resilient economies therefore means addressing the cost and structure of financing and ensuring debt sustainability, aWhile V20 members should consider effective policy tools, such as debt swaps, ultimately global cooperation is needed for successful and coordinated debt restructurings. The reality is that larger concessional flows, lower borrowing costs, faster and more comprehensive debt treatment are vital to unlock growth and long-lasting transformation. It is here that

**H.E. ELIZABETH THOMPSON**

Ambassador Extraordinary & Plenipotentiary Climate Change,  
Small Island States & Law of the Sea, Barbados and Sherpa  
to Prime Minister Mia Amor Mottley, S.C. M.P., Chair of the CVF-V20



The background is a solid dark blue. On the left side, there is a large, abstract graphic composed of many small white dots. These dots are arranged in a series of concentric, overlapping circles or a wave-like pattern that originates from the left edge and extends towards the right, where it tapers off. The dots are more densely packed in some areas, creating a sense of depth and movement.

# EXECUTIVE SUMMARY



Climate-vulnerable economies continue to face a difficult financing environment in which high borrowing costs, constrained external finance, and persistent debt vulnerabilities limit the ability to scale investment in resilience and development. Although the V20's aggregate external debt stock declined modestly in 2024 after peaking in 2023, the underlying financing constraint has not materially improved. Debt service remains elevated, a growing share of countries devote 10% or more of government revenue to external debt payments, and domestic interest costs are placing additional pressure on public budgets. Multilateral institutions continue to provide an important source of external public finance, but overall net transfers have fallen sharply from their pandemic peak. In this context, debt swaps can create useful fiscal space in some cases, but their scope is limited. Commercial buybacks depend on countries retaining market access, having sufficient bond debt and securing credit enhancement, while bilateral swaps have historically operated at a much smaller scale and cover only part of the creditor base. The illustrative estimates in this report suggest that, even under favorable assumptions, swaps can address only a small share of the V20's broader debt burden. A broader response is therefore needed, including more concessional finance, lower borrowing costs, and faster, more comprehensive debt treatment where necessary.

## KEY HIGHLIGHTS

- 1. Debt vulnerabilities remain widespread.** Of the 48 Poverty Reduction and Growth Trust (PRGT)-eligible V20 members assessed by the International Monetary Fund (IMF) and World Bank, five are in debt distress, 16 are at high risk, 23 at moderate risk, and only four at low risk. In other words, roughly two-thirds are in debt distress or at high risk.
- 2. The recent easing in debt stocks has not translated into lower debt service pressures.** In 2024, 25 countries devoted between 10% and 20% of government revenue to external debt service, while eight spent 20% or more. Domestic interest burdens are adding further pressure in several members.
- 3. External financing conditions remain difficult.** Net transfers remained positive for V20 as a group but fell to around US\$11 billion, compared with roughly US\$53 billion at their 2020 peak. Net transfers from MDBs remained positive but fell to roughly half their 2020 level. Net transfers from bondholders were slightly positive, while those from China and other creditors turned negative.
- 4. Debt swaps are useful only in specific**





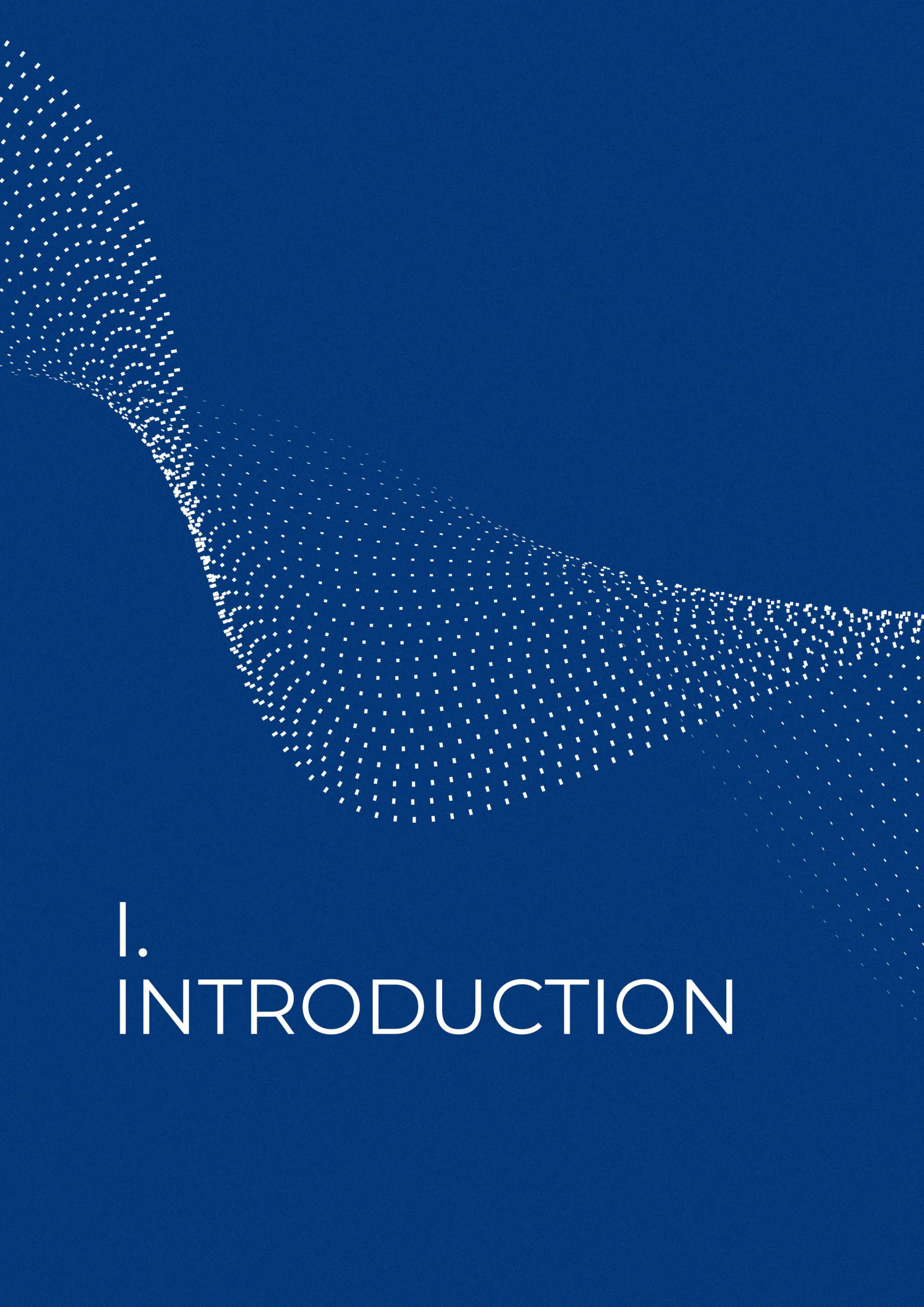


**circumstances.** 46% of V20 external debt is owed to either multilateral development banks or to the International Monetary Fund, which do not offer swaps on their claims. Swaps also suit only countries with moderate spreads and sustainable debt, and rating concerns, transaction costs and the difficulty of scaling deals can limit their gains even in those countries.

5. **The overall impact of swaps is modest relative to the size of the debt challenge.** Based on Barbados's 2022 swap and an

optimistic scenario in which swap volumes are five times their historical average, savings would reach about US\$19.9 billion in 2026 present value, or 2.9% of eligible debt and less than 0.5% of V20 GDP. That compares with more than US\$150 billion in debt service due in 2026 alone. Where conditions allow, V20 countries should use swaps to fund climate and development priorities, but lasting progress requires reform of the debt architecture and more affordable finance.





# I. INTRODUCTION



Climate-vulnerable economies are already bearing severe and increasingly compounding costs from climate change (Intergovernmental Panel on Climate Change, 2022). Estimates suggest that the V20 Finance Ministers, now a coalition of 77 countries, would be substantially wealthier today had climate change been avoided (Baarsch et al., 2022). Delays in climate action do not simply postpone benefits; they narrow future growth opportunities and make it harder for vulnerable countries to shift onto a climate-prosperous development path.

Meeting these challenges requires financing at a scale that substantially exceeds current flows. Recent expert assessments indicate that emerging market and developing economies (excluding China) face additional financing needs in the trillions of U.S. dollars over this decade to advance progress toward the United Nations 2030 Sustainable Development Goals, with a significant share expected to be mobilized through external public and private sources (International Monetary Fund, 2023; Organization for Economic Co-operation and Development, 2025). Yet this mobilization must occur amid high cost of capital and tightening fiscal space across developing countries. New international commitments—such as the climate-finance goals agreed at COP29—and pledges by Multilateral Development Banks

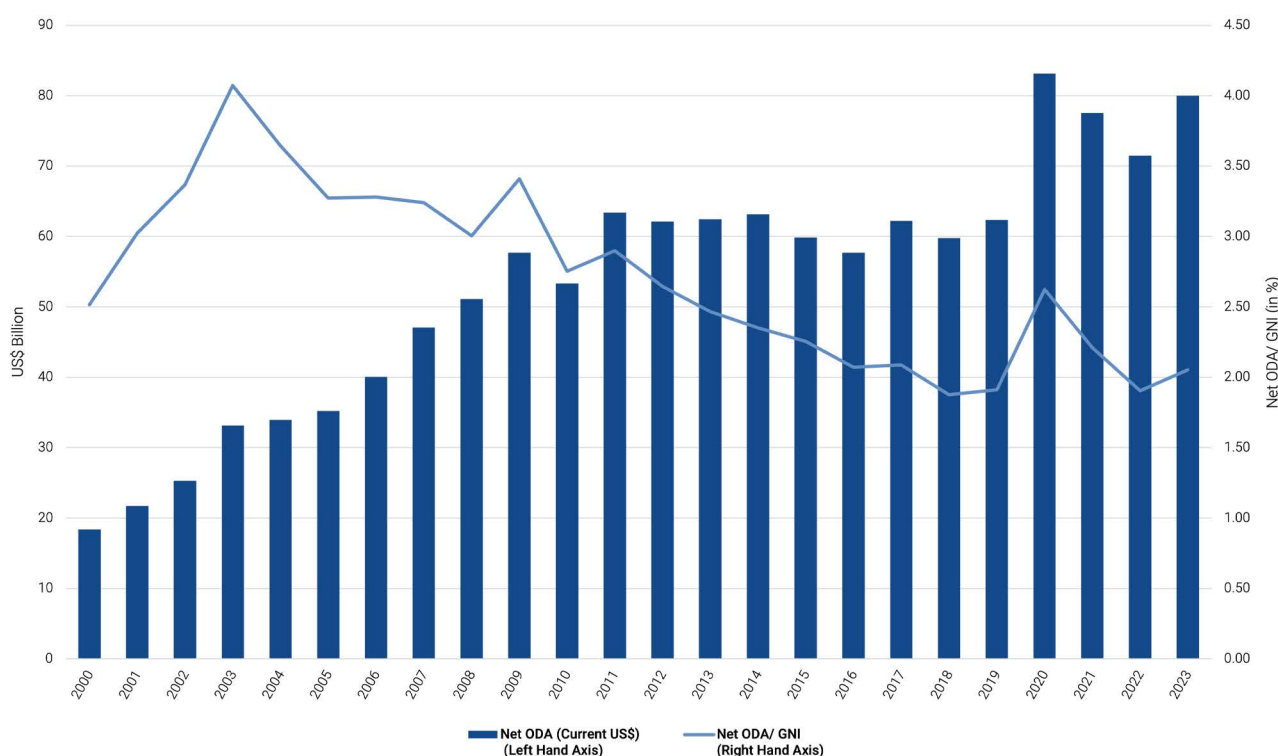
(MDBs) to scale up climate finance reflect growing recognition of investment needs, but many V20 members still face a core constraint: raising affordable long-term finance at speed and scale.

That constraint is fundamentally macro-financial. First, debt vulnerabilities remain widespread - recent IMF/World Bank assessments classify 21 out of 48 analyzed V20 countries as in, or at risk of, debt distress (IMF 2026). Second, many middle-income V20 members face especially high borrowing costs, limiting their capacity to frontload resilience and development investment. Third, grants and concessional external financing (at low interest rates) have not expanded in line with needs. Figure 1 underscores this tension: net official development assistance (ODA) received by V20 countries rises over the long run in absolute terms and shows sharp jumps in 2020, remaining elevated thereafter and peaking again in 2023. However, the red line in the figure—net ODA as a share of V20 Gross National Income (GNI)—tells the more sobering story: after peaking in the early 2000s (around four percent), it trends downward over time and remains near two percent in the most recent years, despite the pandemic-era spike. This combination—higher nominal flows but a declining ODA effort relative to economic size—means that aid is not keeping up with the scale of the challenge.





**FIGURE 1:  
V20: NET OFFICIAL DEVELOPMENT ASSISTANCE RECEIVED, CURRENT US\$  
AND AS SHARE OF GROSS NATIONAL INCOME, 2000-2023**



Source: Authors' calculation based on World Development Indicators (WDI)  
Note: 70 V20 countries included in the analysis

These pressures are intensified by weaker growth prospects and a more volatile external environment (World Bank, 2026), which complicate fiscal planning and increase the difficulty of sustaining long-horizon investment programs. In this context, sovereign debt distress is not a peripheral issue; it is a central binding constraint on resilience-building and on the ability to seize development opportunities while managing mounting climate risks.

Against this backdrop, the V20 has continued to place debt distress and debt-system reform at the center of its political agenda, calling for faster and more effective solutions that restore debt sustainability while enabling accelerated climate investment and durable

recovery. This fourth edition of the Debt Review takes stock of current conditions across the V20 membership, updating the evidence base and examining how debt burdens, borrowing costs, and the composition of external finance interact with climate and development financing needs. Building on prior editions, it provides an overview of sovereign debt trends, drawing on the World Bank International Debt Statistics (IDS) database, and situates these trends within the broader financing landscape. The sections that follow review the V20's external debt profile, assess debt distress and cost-of-capital constraints, and discuss what these imply for policy priorities and for international efforts to mobilize affordable long-term finance at scale.



# II. V20 DEBT PROFILE





The latest IMF-World Bank Low-Income Country Debt Sustainability Analysis (DSA) ratings for PRGT-eligible countries (published on March 31st 2026) shows that debt vulnerabilities remain widespread in V20 countries. In Figure 2, five of 48 countries are classified as in debt distress (Ethiopia, Grenada, Malawi, Sudan, and Senegal), 16 are at high risk, 23 at moderate risk, and only four at low risk. In other words, roughly two-thirds of V20 eligible for PRGT are in debt distress or at high risk.

These ratings are risk classifications, not a measure of “how much” debt a country has, so they should be read as an indicator of the likelihood of debt distress under plausible shocks and policy paths. The dominance of moderate-to-high risk categories reinforces a core message of the fourth Debt Review: for many V20 members, debt sustainability, the cost and structure of financing are central constraints on development and climate-resilience investment, and resolving them is integral - not separate - to mobilizing durable, affordable finance at scale.

**FIGURE 2:**  
**RISK OF EXTERNAL DEBT DISTRESS IN V20 COUNTRIES (PRGT-ELIGIBLE ONLY),**  
**AS OF MARCH 31, 2026**

| LOW RISK<br>(4) | MODERATE RISK<br>(23) |                  | HIGH RISK<br>(16) | IN DEBT DISTRESS<br>(5) |
|-----------------|-----------------------|------------------|-------------------|-------------------------|
| Cambodia        | Bangladesh            | Marshall Islands | Afghanistan       | Ethiopia                |
| Honduras        | Benin                 | Nicaragua        | Chad              | Grenada                 |
| Nepal           | Bhutan                | Rwanda           | Comoros           | Malawi                  |
| Solomon Islands | Burkina Faso          | Samoa            | The Gambia        | Senegal*                |
|                 | Cabo Verde            | Somalia          | Papua New Guinea  | Sudan                   |
|                 | Côte d'Ivoire         | Tanzania         | Ghana             |                         |
|                 | DR Congo              | Timor-Leste      | Haiti             |                         |
|                 | Dominica              | Togo             | Kenya             |                         |
|                 | Guinea                | Uganda           | Kiribati          |                         |
|                 | Kyrgyz Republic       | Vanuatu          |                   |                         |
|                 | Liberia               | Yemen            |                   |                         |
|                 | Madagascar            |                  |                   |                         |

Source: IMF (2026)

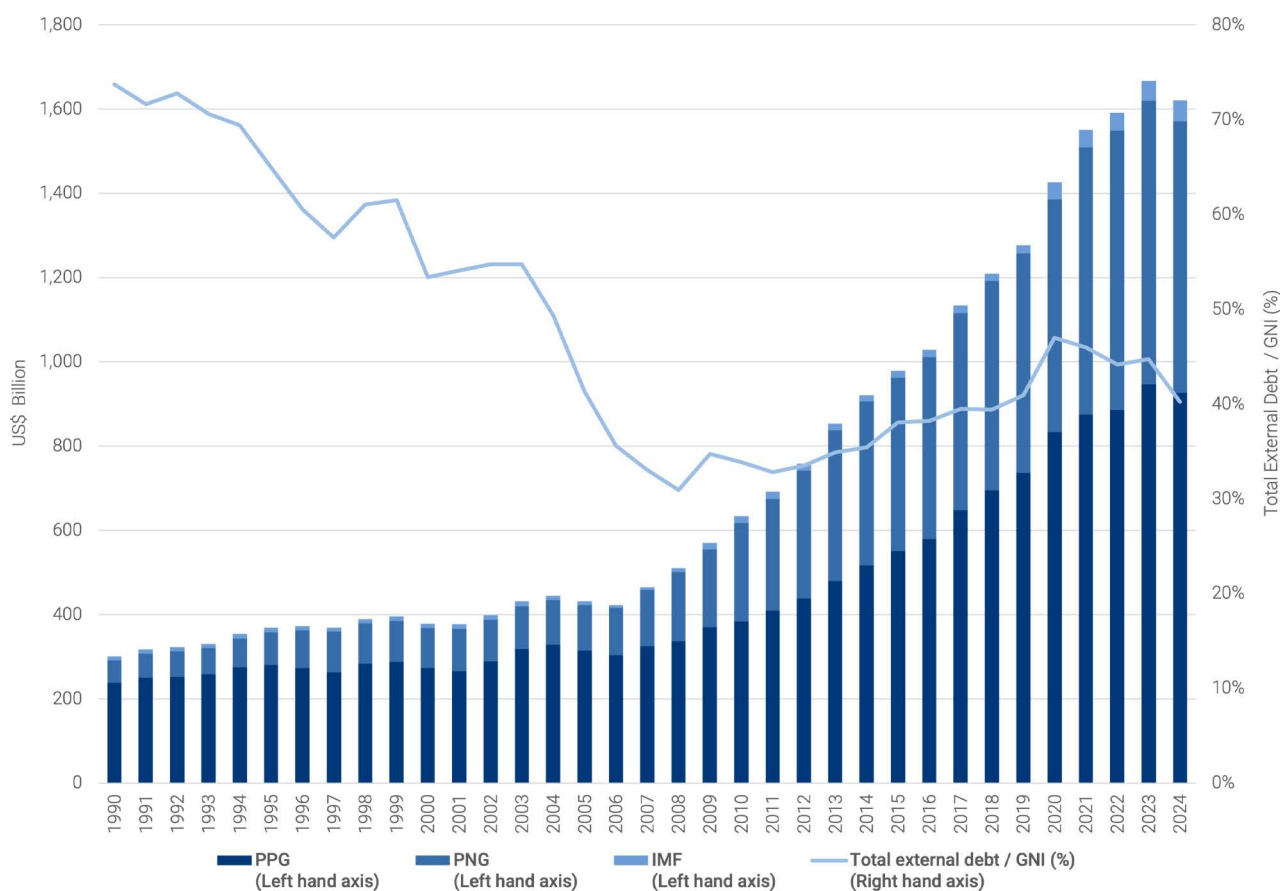
Note: \* Senegal is classified as at moderate risk of debt distress according to its 2023 DSA. However, the government recently decided to pursue a debt restructuring under the G20 Common Framework, following a recent assessment that its debt is unsustainable.



Figure 3 updates the time series on the V20's total external debt stock (left axis, US\$ billions), broken down by public and publicly guaranteed (PPG), private non-guaranteed (PNG), and IMF credit, and plots the corresponding total external debt-to-GNI ratio (right axis). In absolute terms, the V20's external debt rises steadily from the early 1990s, accelerates after the mid-2010s, and reaches historically high levels in the early 2020s. Relative to income, however, the burden fell sharply from its 1990s peak to a low around the global financial crisis, and has since been rising again as debt relief gave way to renewed borrowing under tighter financing conditions.

The creditor composition provides additional context. Public and publicly guaranteed (PPG) debt remains the dominant component throughout the series and drives most of the increase in the overall stock, while PNG debt grows more visibly in the 2010s and early 2020s, reflecting a broader set of financing sources beyond traditional official lending. Obligations to the International Monetary Fund (IMF) are comparatively small in stock terms, but the visible “cap” in recent years underscores how IMF credit has contributed at the margin during periods of acute stress.

**FIGURE 3:**  
**V20 TOTAL EXTERNAL DEBT STOCK (INCLUDING THE IMF) AS A SHARE OF GNI, 1990-2024**



Source: Authors' calculation based on International Debt Statistics (2025) and World Development Indicators  
 Note: 58 V20 countries included in the calculations

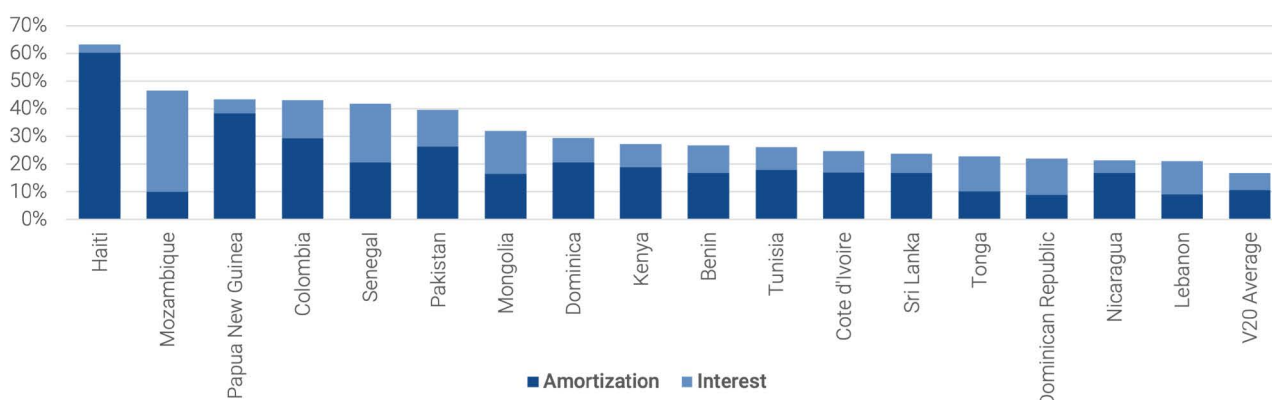


What is new in 2024 is a small turning point after the 2023 high, indicating that the V20's aggregate external debt stock edged down modestly rather than continuing the rapid run-up seen through the pandemic and its aftermath. The debt-to-GNI line similarly dips in 2024, suggesting a marginal easing in the debt burden relative to economic size. That said, the overall message remains one of elevated vulnerability. Although total external debt (as share of GNI) is converging to pre-pandemic levels, to fully understand how external debt constrains development, it is essential to analyze debt service payments alongside debt stocks. Looking only at debt stocks can be misleading, particularly when borrowing is expensive, because it can obscure the true pressure debt exerts on fiscal space and the balance of payments. In practice, it is debt service that directly absorbs scarce foreign exchange and can force difficult trade-offs by limiting countries' ability to import essential goods for development and the clean energy transition.

Against this backdrop, Figure 4 reports total

external debt service (including IMF repurchases and charges) as a share of exports of goods, services, and primary income, and decomposes the burden into amortization and interest. This is a flow-to-flow indicator: the numerator captures scheduled external payment obligations, while the denominator proxies foreign-exchange earning capacity. The object of interest is thus not debt stocks in absolute terms, but the intensity of external liquidity pressure - the extent to which export earnings are pre-committed to debt service. The 2024 update extends the previous edition by one year and confirms that external liquidity pressures remain substantial: the V20 average remains elevated, and a sizable subset of countries continues to devote a very large share of export earnings to debt service. Compared with 2023, the overall panorama remains characterized by a pronounced upper tail - countries with exceptionally high debt service burdens - and, in several cases, a meaningful interest component that signals the added strain from high effective borrowing costs.

**FIGURE 4:**  
**TOTAL EXTERNAL DEBT SERVICE (INCLUDING IMF REPURCHASES AND CHARGES)**  
**AS SHARE OF EXPORTS OF GOODS, SERVICES AND PRIMARY INCOME,**  
**V20 AVERAGE AND SELECTED COUNTRIES, 2024**



Source: Authors' calculation based on International Debt Statistics (2025)  
Note: 58 V20 countries included in the average calculations



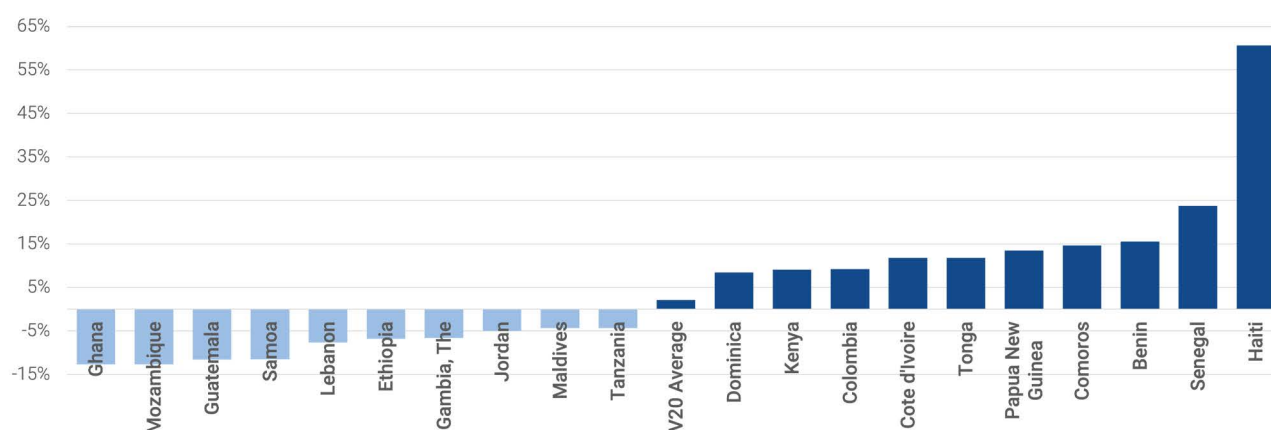
While Figure 4 provides a useful cross-sectional snapshot of external debt service burdens in 2024, a single-year view offers only limited information about momentum. It cannot distinguish countries where pressures are newly emerging from those where burdens are stabilizing or easing. For assessing vulnerability and the near-term financing outlook, it is therefore essential to complement the level in a given year with evidence on recent changes in external repayment pressure. Therefore, we examine how external debt service burdens evolved between 2022 and 2024.

Figure 4.B reports the change (in percentage points) in total external debt service, including IMF repurchases and charges, as a share of exports of goods, services, and primary income over 2022-2024. Countries shown in red experienced an increase in the debt-service-to-exports ratio between 2022 and 2024, implying that a larger share of export receipts was absorbed by external debt service in 2024 than in 2022, i.e., a

deterioration in external liquidity conditions. Countries shown in green experienced a decrease, indicating a smaller diversion of export earnings toward external debt service and, in that limited sense, an improvement in external repayment capacity.

Tracking the evolution of this ratio is analytically important for two reasons. First, it directly captures whether external repayment pressures are intensifying or easing, which is central to diagnosing near-term vulnerability. Second, the ratio can move sharply even when debt stocks change little, because it is sensitive to both (i) the time profile and cost of payments (repayment bunching, changes in effective interest rates, IMF repurchase schedules) and (ii) export performance (terms-of-trade movements, demand shocks, and sectoral export dynamics). As such, the changes depicted here provide a compact summary of which countries saw worsening versus improving external liquidity pressure over 2022-2024, complementing the level-based evidence in Figure 4.

**FIGURE 4.B:**  
**CHANGE IN TOTAL EXTERNAL DEBT SERVICE-TO-EXPORTS RATIO, 2022-2024**  
**(PERCENTAGE POINTS; INCLUDING IMF REPURCHASES AND CHARGES)**



Source: Authors' calculation based on International Debt Statistics (2025)

Note: 58 V20 countries included in the analysis. Negative values (green) indicate a decrease in the debt service-to-exports ratio; positive values (red) indicate an increase.

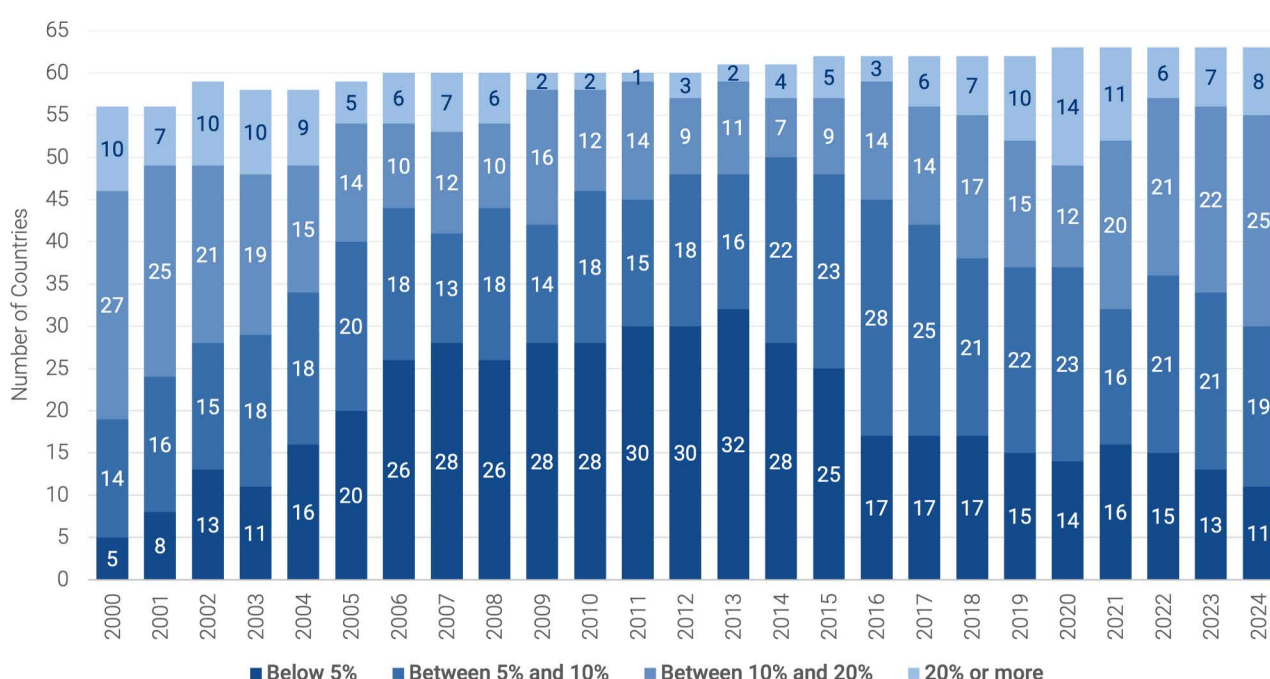


Figure 5 shows the evolution of external public debt service pressures across V20 countries by grouping them each year into four bands based on external debt service as a share of government revenue: below 5%, 5–10%, 10–20%, and 20% or more. The chart illustrates how the “typical” V20 country has moved over time from relatively manageable debt-service ratios toward materially tighter fiscal conditions. In the early-to-mid 2000s, many countries were clustered in the 10–20% band (and a non-trivial number in 20%+), while the late-2000s/early-2010s period shows a notable improvement, with a larger share of countries shifting into the below-5% and 5–10% ranges. From the mid-2010s onward, the picture reverses: **the composition steadily tilts back toward higher debt-service burdens, consistent with the combination of higher debt levels, less concessional borrowing in**

**the membership, and tighter global financing conditions.**

In 2024, this shift toward higher burdens continues rather than stabilizes. Relative to 2023, the number of countries in the lowest-stress category (below 5%) falls from 13 to 11, while the 10–20% group rises from 22 to 25—meaning the modal outcome is now in a range where external debt service can meaningfully constrain discretionary spending. The 20%+ category, typically associated with acute pressure and heightened vulnerability to shocks, also edges up from seven to eight countries in 2024. Meanwhile, the 5–10% group declines (from 21 to 19), suggesting that some countries are moving out of the “moderate but manageable” range into higher-burden brackets.

**FIGURE 5:**  
**EXTERNAL SOVEREIGN DEBT SERVICE AS A SHARE OF GOVERNMENT REVENUE,**  
**DISTRIBUTION OF V20 COUNTRIES BY RATIOS, 2000-2024**



Source: Authors' calculation based on International Debt Statistics (2025) and IMF World Economic Indicators (WEO)



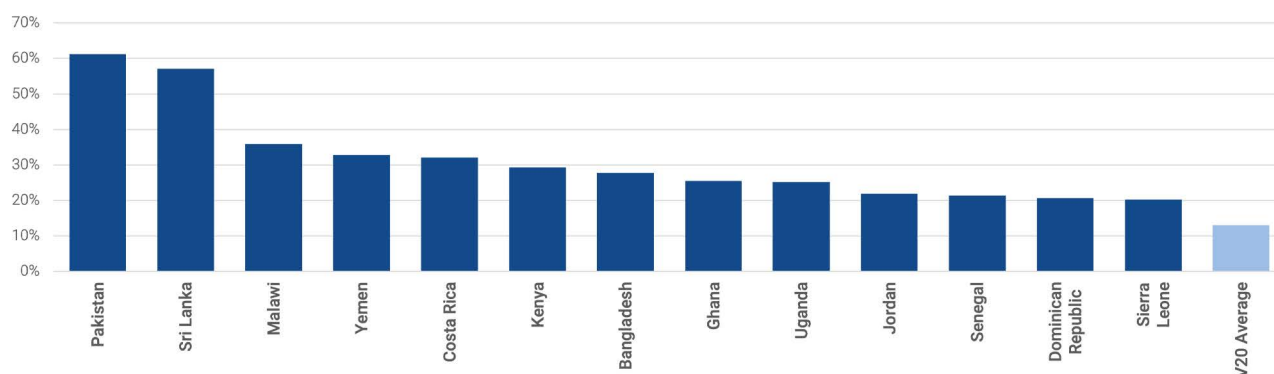
Overall, the 2024 update reinforces a key point for the fourth Debt Review: even if debt stocks (or headline indicators) appear to improve at the margin, debt service is the channel through which stress most directly bites budgets. With a larger share of V20 countries now devoting 10% or more of revenue to external debt service, fiscal space for priority spending—especially climate adaptation, resilience investment, and social protection—becomes harder to protect without either stronger growth and revenues, lower borrowing costs and longer maturities, or timely debt treatments where needed.

However, external debt service is only part of the story. In many V20 members, domestic financing conditions have also tightened, and rising interest costs on domestic debt can be just as binding, if not more so, because they draw directly on the same revenue envelope needed to fund essential services and investment. In fact, including domestic sovereign debt service can further exacerbate this fiscal constraint, and a growing body of evidence links very high interest-to-revenue burdens to heightened default risk.

Figure 6 highlights the subset of V20 members facing the most acute domestic debt-service pressures, showing countries whose interest payments alone (excluding amortization) exceed 20% of government revenue. Including domestic sovereign debt service substantially tightens the fiscal constraint, because these interest outlays compete directly with priority spending on investment, climate resilience, and social protection. When interest payments rise above this threshold, governments are often forced into difficult trade-offs - either scaling back productive and social expenditures or increasing reliance on further borrowing - both of which can raise vulnerability (S&P Global Rating, 2024).

This figure suggests that **a significant group of V20 members remains above the 20% threshold. The chart shows several countries with very elevated interest burdens, - most notably Pakistan (around 60% of revenue) and Sri Lanka (mid-to-high 50s), followed by a second tier clustered roughly in the 20–35% range (including Malawi, Yemen, Costa Rica, Kenya, Bangladesh, Ghana, Uganda, Jordan, Senegal, Dominica, and Sierra Leone). The**

FIGURE 6:  
**V20 MEMBERS EXCEEDING 20 PERCENT INTEREST PAYMENTS  
 AS A FRACTION OF GOVERNMENT REVENUE, 2024**



Source: Compiled by authors using UNCTAD (World of Debt 2025)  
 Note: 67 V20 countries are included in this analysis.



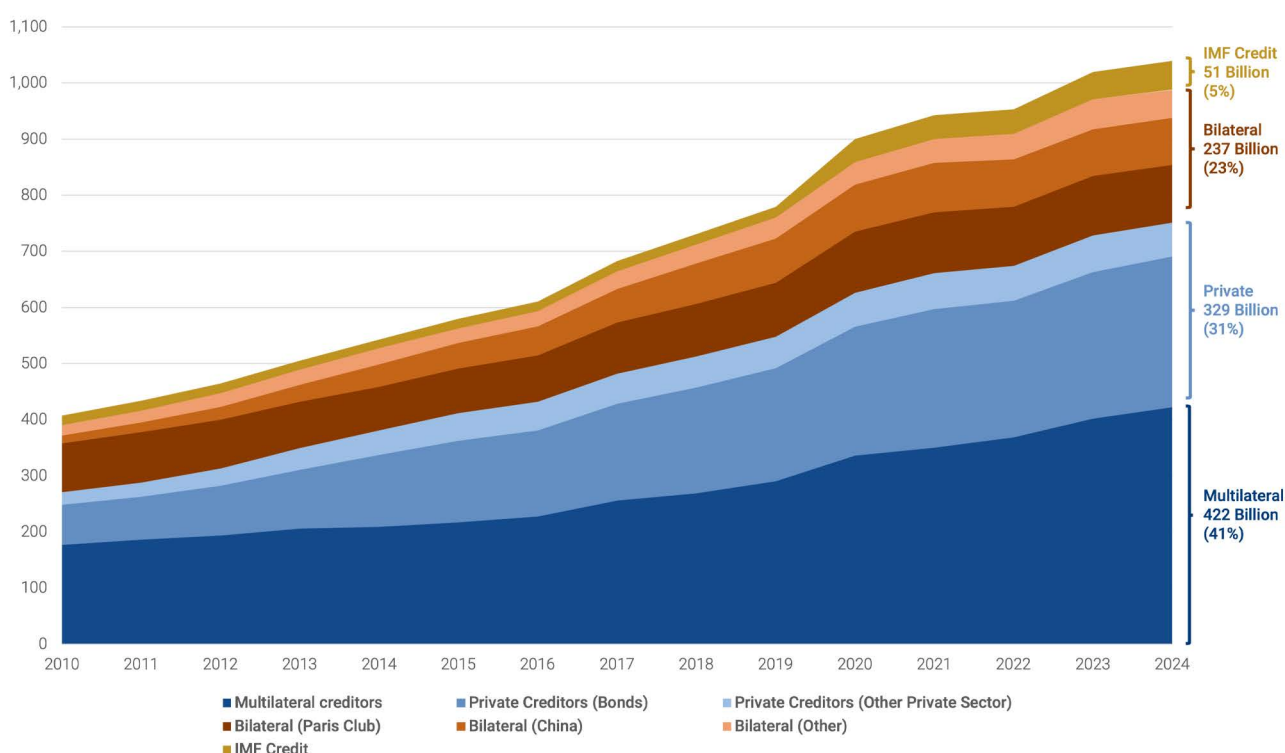
persistence of these levels into the latest year reinforces the report's broader message: even where external debt indicators may dominate the narrative, domestic interest burdens can be equally binding, compressing fiscal space and amplifying the risk of debt distress.

Figure 7 indicates a continued reconfiguration of the V20's external PPG creditor composition, with multilateral institutions remaining the predominant source of financing. By 2024, obligations to multilateral creditors amount to US\$422 billion, corresponding to 41% of the total stock. Private creditors constitute the second-largest creditor group, with claims reaching US\$329 billion (31%), underscoring the sustained importance of market-based and other private

financing channels. Bilateral creditors account for a smaller, though still material, share of the portfolio—US\$237 billion (23%)—reflecting the persistent role of official bilateral lending. Finally, IMF credit, while modest in relative terms, rises to US\$51 billion (5%) in 2024, consistent with the heightened recourse to Fund-supported arrangements amid elevated macro-financial vulnerabilities and more constrained external financing conditions in the post-pandemic period.

Taken together, Figure 7 characterizes the creditor structure of the outstanding PPG debt stock. However, creditor composition alone does not fully capture the near-term external financing conditions faced by V20 members. To complement the stock perspective with a

**FIGURE 7:  
V20 PUBLIC AND PUBLICLY GUARANTEED DEBT BY CREDITOR CLASS,  
US\$ BILLION, 2010-2024**



Source: Compiled by authors using World Bank International Debt Statistics (2025). Includes 63 V20 countries that data is available.



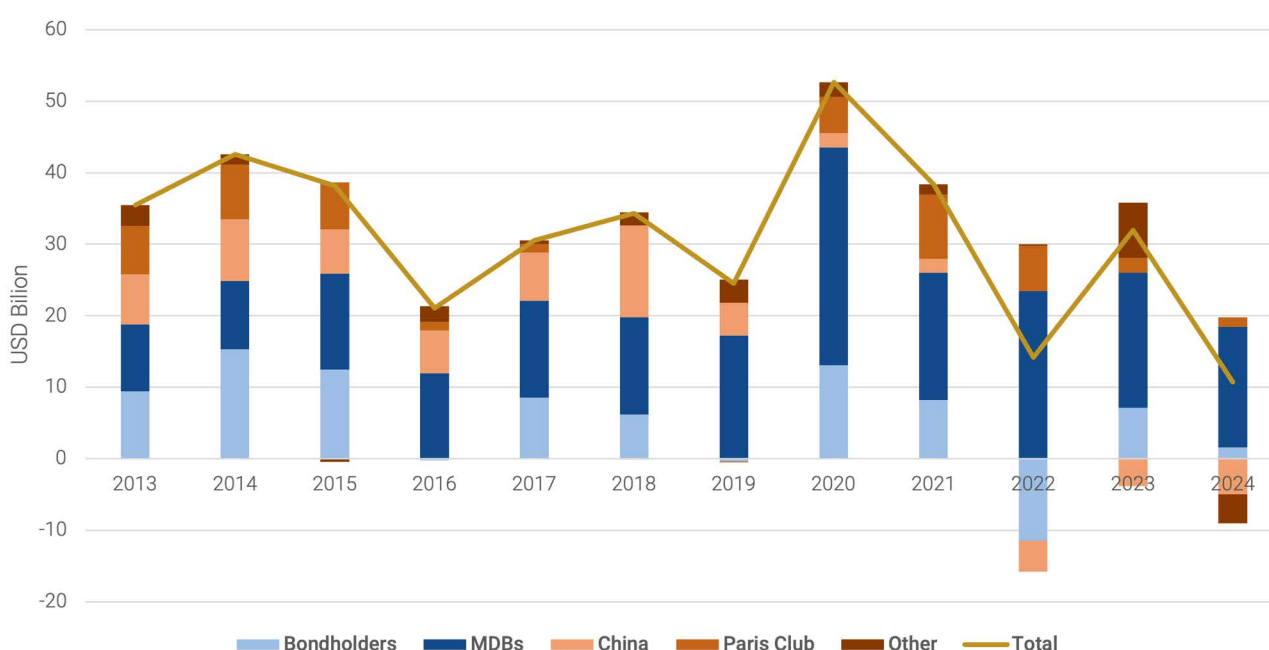
flow-based lens, Figure 8 turns to net transfers on external PPG debt, which more directly reflect how financing translates into (or withdraws) resources over time. It documents the evolution of net transfers on external PPG debt for V20 economies over 2013–2024, highlighting both the cyclical nature of official support and the heterogeneity across creditor classes.

Consistent with the earlier pattern, aggregate net transfers remain positive, but they vary markedly over time - rising from about US\$35-42 billion in 2013-2014, declining to around US\$21 billion in 2016, and strengthening again in 2020. **During the pandemic, net transfers peaked at roughly US\$53 billion, overwhelmingly reflecting the surge in net positive transfers from multilateral development banks (MDBs) (approximately US\$30 billion) alongside**

**additional positive contributions from bondholders (around US\$13 billion), underscoring the role of MDBs as a principal source of countercyclical external financing.**

In 2024, however, total net transfers declined to just US\$11 billion: while MDBs remain the dominant positive source (approximately US\$16-17 billion), their contribution was almost half of the volume provided by 2020. Moreover, the positive net transfers from MDBs is increasingly counterbalanced by net outflows to China (around -US\$4 billion) and other creditors (around -US\$3 billion), with bondholder positive net transfers comparatively modest (roughly US\$2 billion). These patterns underscore that net inflows can attenuate rapidly as repayment schedules and interest obligations intensify, making the trajectory of gross payments central to assessing external liquidity risks.

FIGURE 8:  
**NET TRANSFERS ON PUBLIC AND PUBLICLY GUARANTEED EXTERNAL DEBT,  
 V20 COUNTRIES, 2013-2024**



Source: Compiled by authors using World Bank International Debt Statistics (2025)



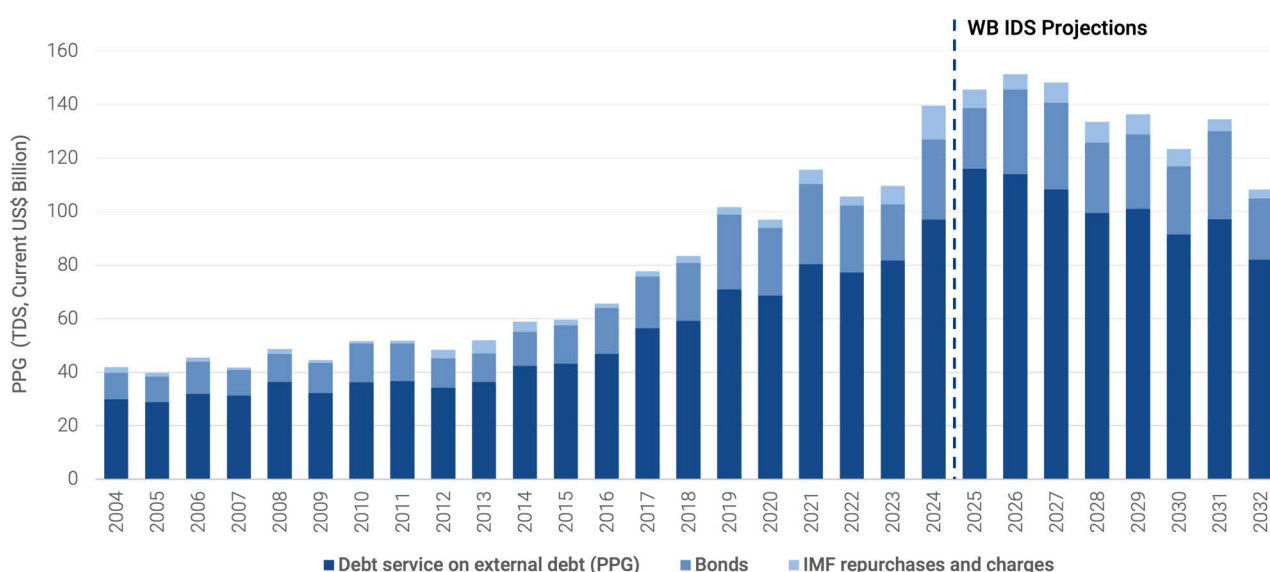
Accordingly, Figure 9 traces the evolution of PPG external debt service for V20 countries, disaggregating payments into debt service on external PPG debt (excluding bonds), bond debt service, and IMF repurchases and charges. The figure indicates a pronounced increase in total debt service from the mid-2010s through the early-2020s, consistent with the combined effects of larger debt stocks, an expanding role for marketable instruments, and tighter global financial conditions.

In 2024, which corresponds to the last year of observed data, total PPG external debt service remains elevated relative to the pre-pandemic period and sits near the high range reached in the early 2020s. The composition in 2024 continues to show that “traditional” external PPG debt service (excluding bonds) accounts for the largest share of payments, while bond-related debt service represents a substantial, and in recent years increasing,

portion of the total. IMF-related payments remain comparatively small in aggregate terms but are visible as a distinct layer, underscoring the role of IMF financing in stress episodes.

The red dashed line marks the transition from historical data (through 2024) to projected values. Specifically, 2025–2031 are projections rather than realized outcomes throughout. In the projection window, total PPG external debt service is expected to remain high in the mid-2020s, peaking early in the forecast horizon before gradually easing later on - though still staying above mid-2010s levels. This profile suggests that, even if debt stocks stabilize, the near-term liquidity challenge from scheduled external payments, especially where bond servicing obligations are large, will continue to constrain fiscal space and complicate efforts to scale up climate and development investment.

**FIGURE 9:**  
**V20 EXTERNAL SOVEREIGN DEBT SERVICE AND IMF REPURCHASES AND CHARGES, 2004-2032**



Source: World Bank International Debt Statistics (2025)  
Note: 63 V20 countries are included in this analysis.





III.  
DEBT SWAPS AS  
AN ALTERNATIVE  
TO REFINANCING  
SCOPE AND LIMITS





Debt swaps are gaining attention as a potential tool for releasing funds, at a time when many V20 countries find it harder and more costly to refinance their debt through the usual channels. This section looks at the benefits, risks and limits of debt swaps, and estimates how much they could save V20 countries. It finds that swaps can free up resources for specific projects, but the structure of V20 debt narrows the conditions under which they are worthwhile, and transaction costs can absorb a large share of the gains.

## A. WHAT ARE DEBT SWAPS?

Debt swaps are liability-management transactions that exchange existing debt obligations for alternative commitments with the aim of reducing debt-service burdens or redirecting resources toward priority objectives (Fresnillo, 2023; Chamon et al., 2022; IMF & WB, 2024). Three operational types are most relevant for V20 sovereigns:

- **Type 1: Bilateral Swaps.** A creditor government cancels or reduces a portion

of a debtor country's obligations in exchange for the debtor committing equivalent funds to agreed-upon domestic expenditures (health, education, climate, etc.), managed through a joint bilateral committee (Essers et al., 2021; Filmus & Serrani, 2009; Sheikh, 2018).

- **Type 2: Third-Party/Multilateral Fund Swaps.** Similar to bilateral swaps, but with a multilateral fund acting as an intermediary, ring-fencing the counterpart funds and providing built-in accountability frameworks (Cassimon et al., 2008).

- **Type 3: Commercial Buyback Swaps (Debt-for-Nature/Climate).** A sovereign buys back its own debt at a secondary-market discount, often facilitated by an NGO intermediary (e.g., The Nature Conservancy) and credit-enhanced by a guarantee (e.g., US DFC). This transaction replaces high-cost external bonds with lower-cost "blue" or "green" bonds, with the interest savings channeled into a domestic conservation or climate trust fund (Ababou, 2025; Fontana-Raina & Grund, 2024; OECD, 2023).



Table 1 summarizes the pros and cons of each type of swap. But despite their structural differences, all three swap types share critical characteristics that define their limitations as a class. They are partial by design, addressing a subset of a country's debt stock rather than its totality. They are conditional, embedding creditor or intermediary control over how released resources are spent. They are not a

substitute for debt sustainability: none of the three types reduces the overall stock of liabilities sufficiently to alter a country's debt trajectory when distress is deep. And they are transaction-intensive, requiring legal structuring, political negotiation, and ongoing monitoring (costs that consume a non-trivial share of gross savings; Albinet et al., 2024; Fresnillo, 2023; IMF & WB, 2024).

TABLE 1:  
DEBT SWAPS – COMPARATIVE POLICY TABLE

| DIMENSION             | PROS / CONS | TYPE 1: BILATERAL                                                                                                                                                                                                                                                                                                                        | TYPE 2: THIRD-PARTY INVOLVEMENT                                                                                                                                                                              | TYPE 3: COMMERCIAL BUYBACK                                                                                                                                                                                                                                                                                                                      |
|-----------------------|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Scale & Fiscal Impact | Pros        | <ul style="list-style-type: none"><li>Can supplement Paris Club/HIPC relief for countries that narrowly miss eligibility (Essers et al., 2021; Fresnillo, 2023).</li><li>Not tied to any single sector. Has funded health, education, water, and climate (Filmus &amp; Serrani, 2009; Sheikh, 2018; Steele &amp; Patel, 2020).</li></ul> | <ul style="list-style-type: none"><li>Multiple active programs (Global Fund, WFP, GPE) operating in parallel across sectors.</li><li>Proven track record across 16+ years (Cassimon et al., 2008).</li></ul> | <ul style="list-style-type: none"><li>Largest volumes of any swap type (Ecuador \$1.6bn, Belize \$553m).</li><li>Mobilizes private market capital without donor grants.</li><li>Converts FX debt service into local-currency program spending.</li></ul>                                                                                        |
|                       | Cons        | <ul style="list-style-type: none"><li>Historically negligible scale. All bilateral swaps since 1988 cover ~0.11% of LMIC debt payments (Essers et al., 2021; Filmus &amp; Serrani, 2009).</li><li>Even converting all Paris Club ODA claims would cover only ~2% of LICs SDG financing needs (Le Mounier, 2021).</li></ul>               | <ul style="list-style-type: none"><li>Same small scale as bilateral; limited to sectors where large multilateral funds already operate.</li></ul>                                                            | <ul style="list-style-type: none"><li>Despite large gross volumes, actual impact on total debt stock is negligible (Ecuador: 1.68% of external debt; Barbados: 0.15%; Fresnillo, 2023; Ababou, 2025).</li><li>Only viable where sovereign bonds trade at a sustained discount (Bulow &amp; Rogoff, 1988; IMF &amp; World Bank, 2024).</li></ul> |



### Transaction Costs & Efficiency

- |             |                                                                                                                                                                                        |                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Pros</b> | <ul style="list-style-type: none"> <li>• Lowest costs of all swap types. Savings flow almost entirely to the debtor</li> <li>• No financial market intermediation required.</li> </ul> | <ul style="list-style-type: none"> <li>• Uses existing multilateral fund infrastructure at no extra cost to debtor or creditor.</li> <li>• Built-in accountability and monitoring at zero marginal cost.</li> </ul> | <ul style="list-style-type: none"> <li>• Credit guarantee unlocks investment-grade rating and broader investor base, enabling lower interest rates (IMF &amp; World Bank, 2024).</li> <li>• Formal net-benefit framework available to assess whether costs are justified (Albinet et al., 2024).</li> </ul>    |
| <b>Cons</b> | <ul style="list-style-type: none"> <li>• Binational committee oversight required throughout the full life of the agreement.</li> </ul>                                                 | <ul style="list-style-type: none"> <li>• Negotiations still lengthy. Fund's existing mandate may not match country priorities.</li> </ul>                                                                           | <ul style="list-style-type: none"> <li>• Extremely high and opaque costs. In Belize, intermediary fees consumed ~50% of gross savings (Ababou, 2025; Fresnillo, 2023).</li> <li>• High costs do not fall as the model scales. No efficiency gains through replication (IMF &amp; World Bank, 2024).</li> </ul> |

### Debt Sustainability

- |             |                                                                                                                                                                                                                                                    |                                                                                                                                                |                                                                                                                                                                                                                                                                             |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Pros</b> | <ul style="list-style-type: none"> <li>• Can provide incremental relief for countries at moderate distress risk with a sustainable outlook.</li> <li>• Useful top-up after formal restructurings.</li> </ul>                                       | <ul style="list-style-type: none"> <li>• Same as bilateral. Provides incremental relief within an established multilateral program.</li> </ul> | <ul style="list-style-type: none"> <li>• Extends bond maturities and reduces near-term refinancing risk (Ababou, 2025; Fontana-Raina &amp; Grund, 2024).</li> <li>• Can meaningfully improve a country's near-term debt service profile and FX reserve position.</li> </ul> |
| <b>Cons</b> | <ul style="list-style-type: none"> <li>• Cannot substitute for comprehensive restructuring. Addresses only a marginal slice of total debt stock (Chamon et al., 2022; Bolton et al., 2022).</li> <li>• Inappropriate for countries with</li> </ul> | <ul style="list-style-type: none"> <li>• Same scale limitations as bilateral. Cannot resolve debt sustainability on its own.</li> </ul>        | <ul style="list-style-type: none"> <li>• If new guaranteed debt defaults, all financial gains become irrelevant. Guaranteed claims excluded from future restructurings.</li> <li>• Does not address the root cause of debt distress.</li> </ul>                             |



unsustainable debt.  
Risks delaying needed  
restructuring.

Conditionality  
& Country  
Ownership

- Pros

  - When genuinely debtor-led, it can fund country-defined priorities aligned with national budget strategies (Steele & Patel, 2020).
  - Multilateral fund shields resources from bilateral political interference and tied-aid practices.
  - Voluntary market mechanism. Debtor retains veto power during structuring.
- Cons

  - Creditor controls resource allocation. History of tied aid and creditor-imposed spending priorities (Fresnillo, 2023; Knicley, 2012).
  - Carbon credit coupling risks double-counting and lets northern creditors outsource mitigation obligations (Paul et al., 2023).
  - Conditionality still present. The fund mediates, but does not remove creditor control over sector choice.
  - Sectoral scope limited to areas where large multilateral programs already exist.
  - Deal design driven by the NGO intermediary, not the debtor country (Fresnillo, 2023; Ababou, 2025).
  - Government holds minority board stake on trust fund, which could contradict aid effectiveness principles (Brender & Drazen, 2005; Standing, 2022; Curtis et al., 2023).



Photo credit: Magnific



## **B. UNDER WHAT CONDITIONS CAN V20 COUNTRIES USE SWAPS?**

The first consideration is whether a swap is financially viable. Swaps are generally recommended for countries whose debt remains sustainable (Chamon et al., 2022; UNCTAD, 2025). In these cases, they can be more attractive than conditional grants and preferable to a restructuring, which carries reputational and economic costs. Their design, however, has lasting consequences. Swaps can introduce new senior creditors, such as guarantors, which complicates any future restructuring. Even with credit enhancement, they are not an effective restructuring tool (UNCTAD, 2025).

The second consideration is how much of a country's debt is eligible for a swap. Here, V20 countries face an immediate constraint: 41% of their external public debt is owed to multilateral development banks (MDBs), and 5% to the International Monetary Fund (IMF), which, except for HIPC and MDRI cases, have not restructured their own claims. MDBs can facilitate a swap, but their own loans are not converted. This leaves the remaining 54% of the debt stock potentially eligible: 23% owed to bilateral creditors and 31% to commercial creditors.

Of this bilateral share, 10% is owed to Paris Club creditors, 8% to China and 5% to other governments. This debt can be addressed through bilateral swaps (Type 1), the oldest and most diplomatically accessible swap type. They can be negotiated outside formal restructuring frameworks and are flexible enough to fund priorities set by the debtor country. Third-party swaps (Type 2) add a multilateral fund as an intermediary, which

limits political interference and builds in accountability. The main limitation of both types is the scale of potential savings. All bilateral swaps since 1988 cover roughly 0.11% of debt payments by low- and middle-income countries (Essers et al., 2021; Filmus & Serrani, 2009). Converting every eligible Paris Club aid-related loan would cover only about 2% of low-income countries' financing needs for the Sustainable Development Goals (Le Mounier, 2021).

Bilateral debt swaps have a long history. The Paris Club introduced them in 1990 as an option in its restructuring terms for lower-middle-income countries (Klein, 1992), and has since used them to top up relief after formal restructurings (IMF & WB, 2024). Interest has recently revived. As a follow-up to the Sevilla Commitment adopted at the Fourth International Conference on Financing for Development (FfD4) in 2025, the World Bank and the Government of Spain launched the Global Hub on Debt for Development Swaps, which aims to improve how swaps are designed and executed and to help scale them up by sharing knowledge and practical tools (WB 2026). China, the largest bilateral creditor outside the Paris Club, has also begun to engage. In October 2023, Egypt and China signed an agreement launching the first phase of a debt-for-development swap program, making Egypt the first country to conclude such a deal with China's International Development Cooperation Agency (CIDCA) (Ministry of Planning, Economic Development and International Cooperation of Egypt, 2023).

Regarding swaps with private creditors, among the 31% of V20 external debt owed to private creditors, 26% is in the form of bonds, which could be subject to buybacks (Type 3). Exposure to bonds, however, varies widely across the group. Only 31 of the 74 V20



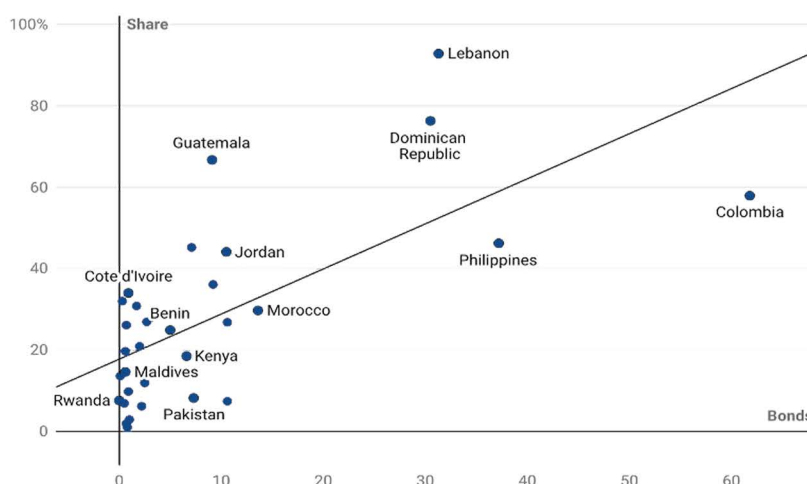
countries have external bonds outstanding, totaling US\$268 billion, and both the size of these bond stocks and their share of external debt differ considerably (Figure 10). A handful of issuers account for most of the total: Colombia, the Philippines, Lebanon and the Dominican Republic together hold more than half of the group's bond stock. Most other issuers have less than US\$10 billion outstanding, with bonds making up less than 40% of their PPG external debt. Larger bond stocks tend to go with higher bond shares, but there are exceptions. Guatemala relies heavily on bonds (around two-thirds of its PPG external debt) despite a relatively smaller stock, while Pakistan and Kenya have similar levels in absolute terms, but they make up only a small share of their debt.

Larger V20 countries that tap bond markets regularly have the most bond debt eligible for buybacks, and so in principle the most to gain from commercial swaps. Yet these are often the countries whose policymakers are most reluctant to use them, due to concerns over

the effect on their credit rating. For frequent issuers, the risk that a swap is treated as a distressed exchange can outweigh the expected savings. In 2025, Colombia, the V20 country with the largest bond stock, declined debt-for-nature swap offers for this reason. Moody's classification of the Belize and Ecuador swaps as distressed exchanges, although neither country was downgraded as a result, shows why concerns over a downgrade can deter countries from engaging in swaps (White, 2025).

Commercial buyback swaps are best suited to contexts where sovereign bonds trade at a sustained secondary-market discount. According to the WB and IMF (2024), bonds with spreads of at least 200 basis points could potentially generate some meaningful savings. When spreads are high, bonds trade below par, creating a potential buyback gain: the sovereign can retire \$1 of face-value debt by paying less than \$1 in present value (Bulow & Rogoff, 1988). However, a key concern with buyback swaps is that secondary-market

**FIGURE 10:**  
**SOVEREIGN BOND STOCK (US\$ BILLION) AND BOND SHARE OF PUBLIC AND PUBLICLY GUARANTEED EXTERNAL DEBT (%), SELECTED V20 COUNTRIES, 2024**



Source: Authors' elaboration using World Bank International Debt Statistics (2025)



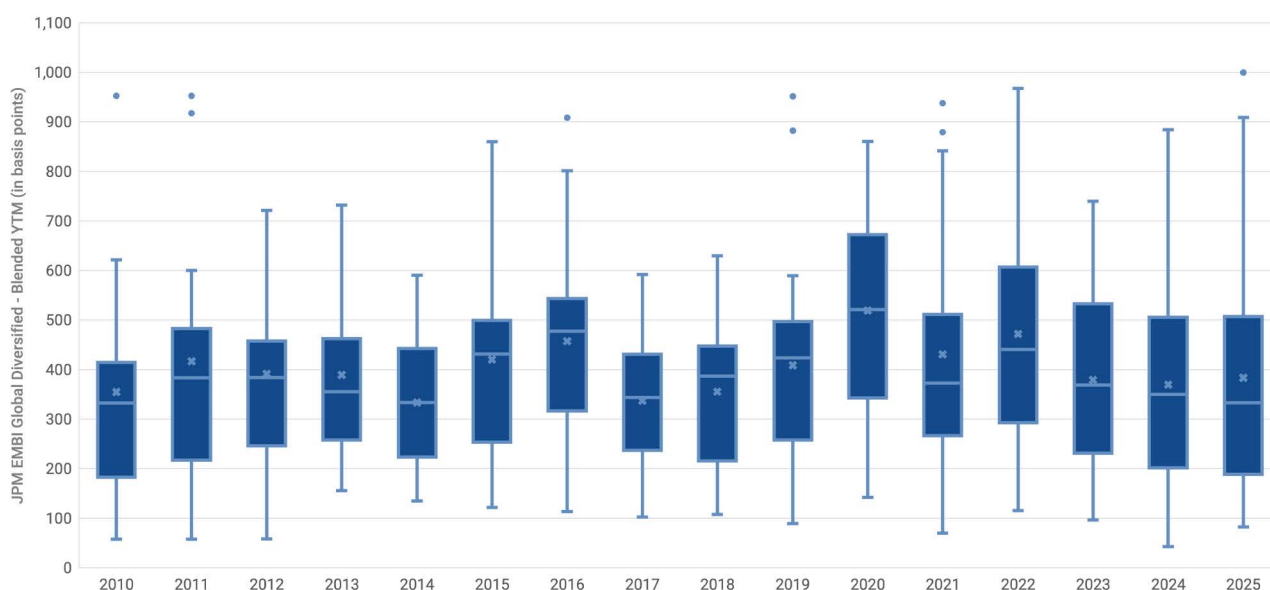
purchases can push bond prices up, reducing the gains from the buyback (Bulow & Rogoff, 1988). Credit enhancement (e.g., a guarantee from the U.S. DFC or a multilateral) can narrow the new instrument's coupon further, amplifying net savings (Fontana-Raina & Grund, 2024; Ababou, 2025). These spread dynamics therefore define the feasibility window for commercial swaps.

Figure 10 shows the distribution of annual average bond spreads for the 30 V20 countries that issued bonds between 2010 and 2025. Three features stand out. First, spreads have remained persistently high: the median has stayed above the 200 basis point threshold every year, ranging from roughly 330 to 520 basis points. Second, dispersion widens sharply during periods of stress, with the upper tail reaching 900–1,000 basis points in 2020–2022. Third, although the median has

eased since 2023, the upper tail remains wide, reflecting continued market differentiation against higher-risk issuers.

Spread levels alone suggest many V20 issuers could, in principle, benefit from commercial buyback swaps. In practice, this potential must be weighed against bond stock size, debt sustainability, rating risk and transaction costs. Bilateral swaps are accessible and low-cost, but small in scale. Commercial buybacks can reach larger volumes, but only a few market access countries can use them, and costs and rating concerns can erode the gains. Swaps can free up resources for targeted priorities and financing specific development projects, but closing the financing gap requires more fundamental reform in the international financial architecture (Bolton et al., 2022; Volz et al., 2021).

**FIGURE 10:  
DISTRIBUTION OF JPM EMBI GLOBAL DIVERSIFIED-BLENDED YTM SPREADS  
(2010–2025, BPS)**



Note: 30 V20 countries. Observations above 1,000 bps excluded (high-distress episodes).

Source: London Stock Exchange Group (LSEG).



## C. WHAT SAVINGS COULD A SWAP GENERATE? AN ILLUSTRATIVE ESTIMATE

This section offers an illustrative estimate of the savings that debt swaps could generate for V20 countries. The exercise does not distinguish between commercial and bilateral swaps, and it is not a forecast. Rather, it is an order-of-magnitude test that takes as its benchmark the experience of a V20 member, Barbados. In its 2022 debt-for-nature swap, Barbados retired US\$150.5 million of bonds with a weighted average coupon of 7.2% and replaced them with a new loan at 3.8% (Table 2). Including the cost of guarantees and advisory fees, however, the all-in interest rate was 4.9%, a reduction of about 2.3 percentage points compared to the original claims. The operation also reduced the debt stock by

about 2.7% of the face value retired.

We apply these parameters to the V20 as a whole, following the eligibility criteria set out by the IMF and World Bank (2024). First, we exclude countries with average bond spreads below 200 basis points in 2026 (average), or with a low risk of debt distress according to their latest IMF–World Bank DSA (IMF/ WB 2026). These countries already have relatively affordable access to market finance, so borrowing at market rates would be cheaper than undertaking a swap. Second, we exclude countries with average spreads above 1,000 basis points in 2026, or that are in debt distress according to WB/ IMF DSA, since swaps are not an appropriate tool for unsustainable debt. The remaining countries hold US\$ 697.9 billion of the V20's US\$987.9 billion in PPG external debt.

TABLE 2:  
SUMMARY: BARBADOS DEBT-FOR-NATURE SWAP, 2022

| INSTRUMENT                                    | EUROBOND<br>DUE 2029 | DOMESTIC BOND,<br>SERIES E | TOTAL / WEIGHTED<br>AVERAGE |
|-----------------------------------------------|----------------------|----------------------------|-----------------------------|
| Coupon (%)                                    | 6.5%                 | 8.0%                       | 7.2%                        |
| Face value (USD million)                      | 77.6                 | 72.9                       | 150.5                       |
| Purchase price (% of par)                     | 92%                  | 100%                       | 96%                         |
| Purchase cost Face value (USD million)        | 71.59                | 72.90                      | 144.49                      |
| Transaction costs Face value (USD million)    |                      |                            | 2                           |
| Debt stock reduction Face value (USD million) |                      |                            | 4                           |
| Debt stock reduction (% of face value)        |                      |                            | 2.7%                        |
| New loan rate (%)                             |                      |                            | 3.8%                        |
| All-in- cost rate (%)*                        |                      |                            | 4.9%                        |
| Interest rate reduction (%)                   |                      |                            | <b>2.3%</b>                 |

Source: The Nature Conservancy (2022)



We then make the optimistic assumption that 11% of this eligible debt is converted through swaps, which gives a total face value of US\$76.8 billion. This share matches the historical peak recorded by UNCTAD (2025) in 2013–2016, when France's Debt Reduction-Development Contracts (C2D) supplemented relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral

Debt Relief Initiative (MDRI). On average, however, swaps have remained well below 2% of debtor countries' PPG debt stock, and bilateral swaps have peaked at just 0.4% of their external PPG debt (UNCTAD, 2025). Our scenario therefore assumes a more than fivefold increase in the scale of swaps relative to historical practice. Table 3 summarizes the assumptions and their sources.

TABLE 3:  
**SUMMARY: BARBADOS DEBT-FOR-NATURE SWAP, 2022**

| ASSUMPTIONS                                                 | VALUE   | NOTE / SOURCE                   |
|-------------------------------------------------------------|---------|---------------------------------|
| <b>V20 external debt stock, 2024 (USD Bn)*</b>              | \$987.9 | WB IDS (2025)                   |
| <i>Low risk of debt distress or spreads below 200bp**</i>   | \$165.2 | WB IDS (2025); LSEG, IMF (2026) |
| <i>In debt distress or spreads above 1000bp***</i>          | \$124.8 | WB IDS (2025); LSEG, IMF (2026) |
| <b>V20 external debt potentially eligible for swaps****</b> | \$697.9 | WB IDS (2025); LSEG, IMF (2026) |
| <b>Share of debt swapped</b>                                | 11.0%   | Historical peak, UNCTAD (2025)  |
| <b>Buyback discount on face value</b>                       | 2.7%    | Based on Barbados (2022) deal   |
| <b>Interest rate reduction (bps)</b>                        | 230     | Based on Barbados (2022) deal   |
| <b>Term of new debt (years)</b>                             | 15      | Based on Barbados (2022) deal   |
| <b>Discount rate for present value</b>                      | 5.0%    | IMF/ WB DSA convention          |

Source: Authors' elaboration based on indicated sources.

\* Includes 63 V20 countries for which data are available.

\*\* Includes Guatemala, Honduras, Morocco, Paraguay and the Philippines.

\*\*\* Includes Ethiopia, Grenada, Lebanon, the Maldives, Malawi, Sudan, Senegal and Mozambique.

\*\*\*\* Includes 50 V20 countries. Barbados, Costa Rica and Namibia have spreads below 200 basis points but are not included in the calculation because World Bank International Debt Statistics (IDS) data are not available for them.



Even under these optimistic assumptions, the results are modest (Table 3). If scaled up, swaps could save the V20 up to US\$19.9 billion in 2026 present value, equivalent to 2.9% of eligible V20 debt. Most of this comes from lower interest payments, worth US\$17.8 billion (2026 present value) distributed over 15 years. The reduction in principle is just US\$2.1 billion, or 0.3% of the eligible V20 external PPG debt stock. These savings could help fund priority projects in V20 countries, but they amount to less than 0.5% of the group's GDP of US\$4.1 trillion, too little to materially affect macroeconomic stability and meet the scale of investment needs. By comparison, V20 countries are expected to pay over US\$150 billion in debt service, including interest and amortization, in 2026 alone.

Overall, debt swaps can free up resources for

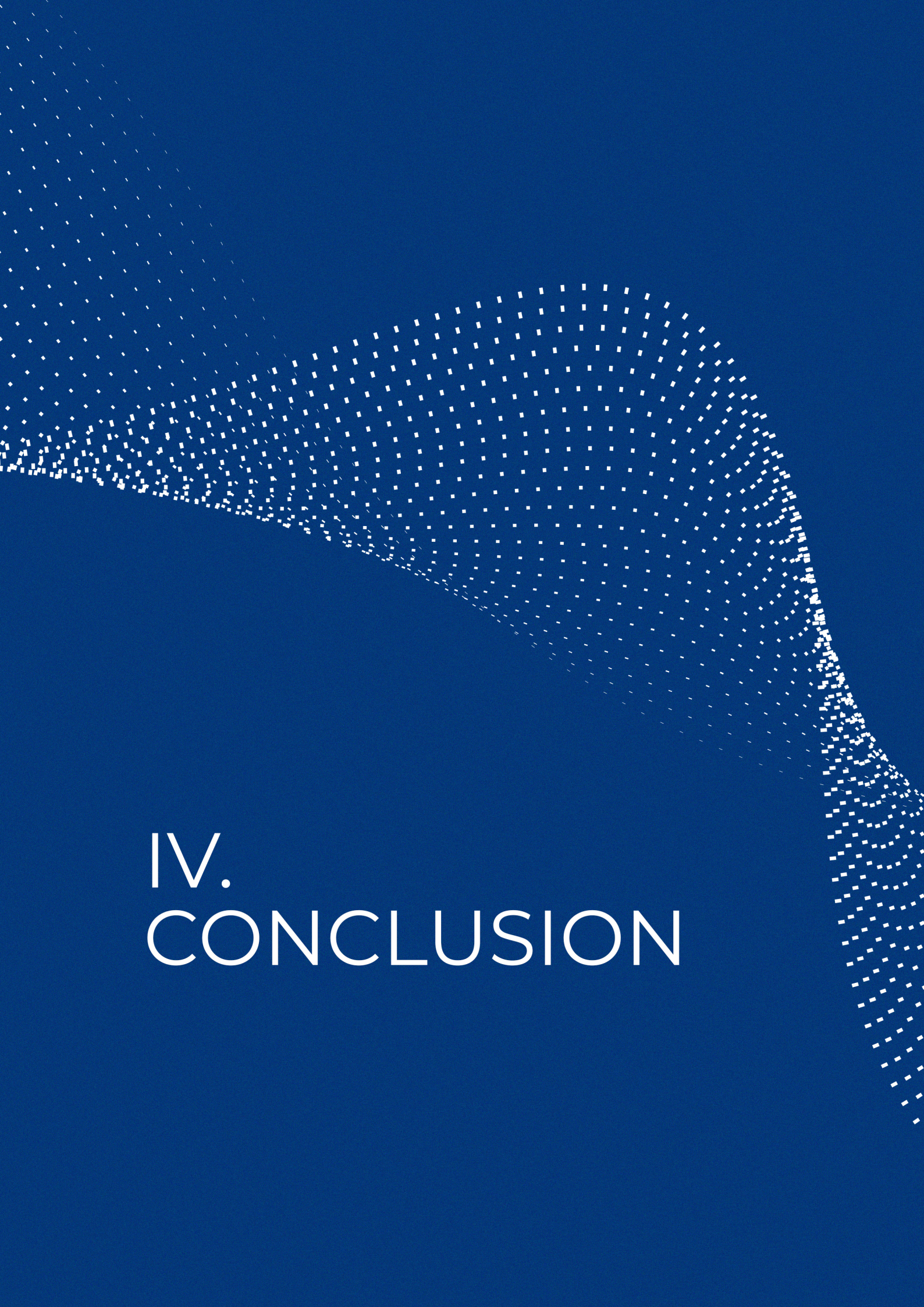
specific priorities, but they cannot resolve the V20's debt challenges. Their reach is limited from the outset: around 41% of V20 external debt is owed to multilateral development banks, which do not swap their own claims, and only countries with moderate spreads and sustainable debt are suitable candidates. Even for these countries, rating concerns and transaction costs can deter or erode the gains. Swaps are also difficult to scale up, since each deal requires bespoke structuring, credit enhancement and lengthy negotiation. Where conditions allow, V20 countries should certainly seize the opportunity that swaps offer to fund climate and development priorities. Addressing the group's broader debt challenges, however, will require deeper reform of the international debt architecture and a substantial scale-up of affordable new finance.

TABLE 4:  
**RESULTS: ILLUSTRATIVE SAVINGS FROM DEBT SWAPS,  
 ELIGIBLE V20 COUNTRIES (US\$ BILLION)**

| RESULT                                          | VALUE         | CALCULATION                                                                             |
|-------------------------------------------------|---------------|-----------------------------------------------------------------------------------------|
| Face value of debt swapped (USD Bn)             | \$76.8        | 11% of eligible PPG external debt (US\$697.9 billion)                                   |
| Buyback cost (new debt issued) (USD Bn)         | \$74.7        | Face value × (1 – 2.7% discount)                                                        |
| <b>A. Debt stock reduction (USD Bn)</b>         | <b>\$2.1</b>  | <b>Face value – buyback cost</b>                                                        |
| Debt stock reduction (% of eligible debt)       | 0.3%          | Debt stock reduction (US\$2.2 billion) / eligible PPG external debt (US\$697.9 billion) |
| Annual interest saving (USD Bn)                 | \$1.7         | New debt × 2.3 pp interest rate reduction                                               |
| <b>B. Interest saving (present value, 2026)</b> | <b>\$17.8</b> | <b>Over 15 years, discounted at 5%</b>                                                  |
| Total saving, present value (A + B)             | \$19.9        |                                                                                         |
| <b>Total saving (% of eligible debt)</b>        | <b>2.9%</b>   |                                                                                         |
| Debt not covered by swaps                       | \$621.2       | Eligible debt – face value swapped                                                      |
| Debt not covered (% of eligible debt)           | 89.0%         |                                                                                         |

Source: Authors' elaboration





# IV. CONCLUSION





The fourth Debt Review shows that debt remains a binding constraint on climate and development investment across the V20. Twenty-one of the 48 V20 countries assessed under the IMF–World Bank framework are in, or at high risk of, debt distress. Although the group's external debt stock eased slightly in 2024, debt service continues to absorb a growing share of public resources: 33 countries now devote 10% or more of government revenue to external debt service, and in several members interest payments alone exceed 20% of revenue. At the same time, external financing has become less supportive. Net transfers on external public debt continue to be positive but fell to US\$11 billion in 2024, from a pandemic peak of about US\$53 billion, as repayments to China and other creditors increasingly offset multilateral inflows. Official development assistance has also declined to around 2% of V20 income. With debt service projected to remain high over the coming years, the core challenge for many V20 countries is access to affordable, long-term finance.

This brief also shows that debt swaps can help at the margin, but their reach is limited. Around 46% of V20 external public debt is owed to multilateral development banks and the International Monetary Fund, which do not offer

swaps on their claims, and only countries with moderate spreads and sustainable debt are suitable candidates. Even under optimistic assumptions of a fivefold increase in the average level of swaps and based on the Barbados swap experience, savings would reach about US\$19.9 billion in 2026 present value, or 2.9% of eligible debt or less than 0.5% of V20 group GDP. Savings amounts are also well below the US\$150 billion the group will pay in debt service in 2026 alone.

For countries in debt distress, however, swaps are not an adequate response. They affect only a small share of debt, may create senior claims that complicate future restructurings, and are least feasible once market access has been lost. In such cases, coordinated debt restructuring remains the more appropriate tool (Bolton et al., 2022; Chamon et al., 2022; Volz et al., 2021).

Where conditions allow, V20 countries should seize the opportunity that swaps offer to fund climate and development priorities, but more broadly, durable progress will depend on larger concessional flows, lower borrowing costs, faster and more comprehensive debt treatments, and deeper reform of the international debt architecture (Bolton et al., 2022; Volz et al., 2021).



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